MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2021/2022

BEC1034 – MICROECONOMICS

(All Sections/Groups)

10 AUGUST 2022
9:00 am to 11:00 am
(2 hours)

INSTRUCTIONS TO STUDENTS

1. This Final Exam consists of **THREE (3)** pages including a cover page with **FOUR (4)** Structured Questions.
2. Please **write the answers in the answer booklet** provided.
3. Candidates **MUST** attempt **ALL** questions.
4. The marks distribution for each question is given. Total marks 100.

Answer all the following questions:

QUESTION 1 (25 marks):

a) Star's Children is a small company that has a subcontract to produce instructional materials for disabled children in public schools. The owner rents several small rooms in an office building in a small city for $650 a month and leased computer equipment that costs $450 a month. Find and fill in all the empty columns.

Output	Fixed Costs	Variable Costs	Total Cost	Average Fixed Cost	Average Variable Cost	Average Total Cost	Marginal Cost
0	$1,100						
1	$1,100	$ 380	$1,480				$400
2						$965	$450
3		$1,350	$2,430				
4		$1,900			$475		
5		$2,500		$216			
6			4,280				$700
7		$4,100					
8		$5,400		$135			
9		$7,300					
10			$10,880		$980		

(7 marks)

b) Using graphs, discuss a circumstance in which the firms in a competitive market are earning positive economic profits. Can this scenario be maintained in the long run? Explain. (10 marks)

c) If the government increases the number of police and customs officers devoted to the war on drugs. Using a graph, illustrate the effects of demand and supply of drugs in the market? (8 marks)

QUESTION 2 (25 marks):

a) Using graph, illustrate the deadweight loss caused by a monopoly. How is this similar to the deadweight loss from taxation? (11 marks)

b) Explain the **TWO (2)** economic consequences of price discrimination. (8 marks)

c) Distinguish between short-run and long-run production. (6 marks)

Continued ...

QUESTION 3 (25 marks):

a)

i) Draw a budget constraint that is consistent with the following information.

$$\text{Income} = \$400$$
$$P_Y = \$100$$
$$P_X = \$50$$

(3 marks)

ii) Describe how your original budget constraint would change if income increased to $1,000. (3 marks)

iii) Describe how your original budget constraint would change if P_Y decreases to $40. (3 marks)

b) What is the defining characteristic of a natural monopoly? Give an example of a natural monopoly. (4 marks)

c) Explain any **THREE (3)** characteristics of indifference curves. (9 marks)

d) The current price of 1 Liter Thermos Flask is $40 each, and Thermos can sell 400 units per week. If the price elasticity of supply is 2.5 and the price of the flask increased to $42, how many flasks will be sold per week? (3 marks)

QUESTION 4 (25 marks):

a) Interpret economic rent. Illustrate any **TWO (2)** factors affecting demand for land. (9 marks)

b) Using a diagram, illustrate the loanable fund's theory of interest in the capital market. (11 marks)

c) Ali owns a ceiling fan company. He sells 1,000 ceiling fans at $50 each. Each fan costs him $20. He spends his own money to buy raw materials to produce the fans by withdrawing from his savings account where he can earn 5 percent interest. He worked as a fan-dancer at $25,000 a year before he joined the ceiling fan business. Should Ali remain in the business? (5 Marks)

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